Eurocurrency deposit rates

prime banks' bid rates, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Eurodollar											
overnight	19.25	12.87	9.25	9.25	9.25	9.00	9.50	9.25	9.38	10 13	10.25
one month	19.12	13.31	9.12	9.38	9.44	9.69	9.69	9.50	9.88	10.44	10.63
three months	17.55	13.75	9.19	9.50	9.62	9.75	9.81	9.63	10.13	10.63	10.94
six months	16 37	14.81	9 50	9.69	9.69	9.94	10.06	9.88	10.38	10.94	11.25
twelve months	14.87	14.75	9.62	10.00	9.94	10.31	10.37	10.19	10.81	11.44	11.75
Euro-Canadian dollar											
one month	17.50	16.37	10.00	9.06	8.94	9.25	9.12	9.63	9.63	10.00	10.00
three months	16.88	16.37	10.00	9.13	9.19	9.37	9.50	9.63	9 81	10.38	10.50
six months	15.37	16.37	10.13	9.38	9.37	9.56	9.75	9.88	10.00	10.69	10.94
twelve months	14.00	16.37	10.25	9.75	9.69	9.75	10.00	10.06	10.38	11.19	11.44
Euro-French franc											
one month	11.12	15.75	23.00	12.75	12.25	12.25	12.12	12.13	18.00	12.94	11.94
three months	11.75	17.00	24.00	14.31	12.87	13.19	12.19	13.00	17.25	14.38	13.13
six months	12.25	18.00	22.00	15.81	14.00	14.12	12.31	13.75	16.75	15.13	13.88
twelve months	12.87	18.25	19.75	16.19	14.87	14.63	12.62	14.38	16.13	15.88	14.88
Euromark											
one month	8.87	10.44	5.87	5.56	5.56	6.19	5.25	5.69	5.69	5.50	5.44
three months	8.87	10.50	5.87	5.75	5.81	6.19	5.87	5.88	5.81	5.56	5.63
six months	8.87	10.56	5.94	5.88	5.81	6.19	6.12	6.19	6.94	5.75	5.75
twelve months	8.93	10.25	6.00	6.19	6.12	6.44	6.37	6.38	6.19	6.13	6.19
Euro-Dutch guilder											
one month	8.87	10.75	5.12	5.94	5.75	6.00	5.81	5.88	5.94	6.06	5.75
three months	9.31	10.75	5.19	6.19	6.06	6.19	6.00	5.94	6.00	6.06	5.94
six months	9.37	10.75	5.38	6.25	6.19	6.31	6.25	6.13	6.06	6.19	6.06
twelve months	9.62	10.75	5.63	6.56	6.50	6.62	6.37	6.44	6.44	6.50	6.44
Euro-Swiss franc											
one month	6.00	8.87	2.31	3.69	3.50	4.06	3.37	3.00	3.44	3.50	3.31
three months	6.00	9.25	3.25	4.13	4.12	4.06	3.75	3.44	3.63	3.63	3.63
six months	5.75	9.25	3.44	4.31	4.19	4.19	3.94	3.81	3.88	3.81	3.94
twelve months	5.50	8.50	3.44	4.38	4.31	4.37	3.94	3.94	4.13	4.13	4.19
Eurosterling											
one month	14.75	15.37	10.56	9.63	9.19	9.06	9.12	9.19	9.13	8.75	8.56
three months	14.75	15.69	10.44	9.56	9.25	9.25	9.31	9.38	9.19	8.88	8.81
six months	14.25	15.69	10 31	9.56	9.37	9.44	9.50	9.56	9.31	9.06	9.06
twelve months	14.00	15.37	10.31	9.81	9.69	9.69	9.81	9.88	9.50	9.31	9.38
Euroyen											
one month	9.12	6.12	6.75	6.69	6.12	7.25	6.25	6.13	6.88	6.19	6.00
three months	9.25	6.12	6.75	6.69	6.31	6.75	6 31	6.31	6.56	6.19	6.19
six months	9.62	6.87	7 10	6.69	6.31	6.69	6.38	6 31	6.50	6.25	6.25
twelve months	9.37	6.87	6.81	6.69	6.44	6.69	6.44	6.44	6.63	6.38	6.31

International bond issues – by currency

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Apr	
				Feb	Mar	Apr	1984	1983
Eurobonds	**31 616**	**51 645**	**48 479**	**8 417**	**5 969**	**7 615**	**28 680**	**16 833**
U.S. dollar	26 830	43 959	38 406	6 622	4 120	6 371	22 884	13 421
Canadian dollar	634	1 201	1 039	16	111	106	345	367
German mark	1 277	2 588	3 817	567	406	466	1 741	1 774
British pound	501	748	1 947	577	623	270	1 751	277
Japanese yen	368	374	212	43	—	133	176	148
European composite unit	309	1 980	2 019	476	491	123	1 215	494
Other	1 697	795	1 039	116	218	146	568	352
Foreign bonds	**21 369**	**26 397**	**27 677**	**2 829**	**2 841**	**2 583**	**10 295**	**11 431**
U.S. dollar	7 552	5 946	4 400	100	1 078	190	1 568	1 823
German mark	1 310	2 952	2 671	308	154	132	755	1 144
Dutch guilder	481	956	1 053	157	—	67	287	474
British pound	746	1 214	811	176	51	184	502	145
Swiss franc	8 285	11 432	14 299	1 682	1 287	1 649	5 854	6 203
Japanese yen	2 457	3 418	3 772	235	266	356	1 135	1 454
Other	538	479	671	171	5	5	194	188
Total	**52 985**	**78 042**	**76 156**	**11 246**	**8 810**	**10 198**	**38 975**	**28 264**

International bond issues — by country of borrower

new issues with a maturity of three years or more, publicly offered or privately placed in the period
millions of dollars

	1981	1982	1983	1984			Jan-Apr	
				Feb	Mar	Apr	1984	1983
Industrial countries	**40 861**	**63 062**	**60 146**	**9 668**	**8 077**	**8 996**	**34 078**	**23 676**
Australia	991	2 250	2 394	149	252	171	753	455
Austria	1 557	1 668	1 265	233	261	235	945	581
Belgium	527	211	1 153	—	161	146	307	192
Canada	10 648	11 979	7 411	436	568	1 091	3 043	2 983
Denmark	695	1 269	1 719	273	384	131	1 388	461
Finland	672	815	866	90	185	80	500	378
France	3 156	8 456	6 461	1 404	375	5	2 306	3 089
Germany	279	1 101	3 095	473	140	18	912	1 454
Ireland	517	625	959	64	73	—	172	251
Italy	1 108	2 214	1 565	82	250	20	602	230
Japan	6 928	8 397	13 966	2 557	1 357	2 322	7 990	5 926
Netherlands	630	894	946	291	98	150	645	273
New Zealand	1 107	1 375	560	131	—	247	378	448
Norway	530	832	699	25	77	100	302	268
Portugal	30	206	76	21	100	—	121	46
South Africa	92	374	548	96	168	69	333	182
Spain	444	747	1 470	44	251	135	702	414
Sweden	2 050	2 479	3 812	545	1 261	1 644	3 626	2 080
United Kingdom	1 408	1 201	1 398	863	333	390	1 886	302
United States	6 770	14 538	7 486	1 596	1 377	1 956	6 344	2 626
*Other**	722	1 431	2 297	295	406	86	823	1 037
Developing countries	**4 886**	**5 003**	**2 525**	**152**	**110**	**95**	**823**	**390**
Latin American countries	**3 658**	**2 480**	**71**	—	—	—	—	**21**
Argentina	195	—	—	—	—	—	—	—
Brazil	60	91	—	—	—	—	—	—
Chile	30	—	—	—	—	—	—	—
Colombia	20	35	—	—	—	—	—	—
Mexico	3 012	1 919	—	—	—	—	—	—
Panama	25	—	21	—	—	—	—	21
Venezuela	291	385	—	—	—	—	—	—
*Other***	—	50	50	—	—	—	—	—
Asian countries	**1 068**	**2 075**	**2 242**	**152**	**110**	**95**	**783**	**369**
Hong Kong	70	40	50	—	—	—	—	—
India	271	225	60	—	50	—	50	20
Indonesia	97	412	328	—	—	—	—	37
Korea	323	172	556	40	60	45	200	151
Malaysia	—	807	883	—	—	—	350	104
Philippines	99	50	—	—	—	—	—	—
Singapore	30	125	70	—	—	—	—	—
Thailand	93	63	255	112	—	50	183	17
Other	85	181	40	—	—	—	—	40
Middle Eastern and African countries	**160**	**448**	**212**	—	—	—	**40**	—
Egypt	—	75	—	—	—	—	40	—
Israel	117	200	135	—	—	—	—	—
United Arab Emirates	—	20	—	—	—	—	—	—
Other	43	153	77	—	—	—	—	—
Centrally planned countries	**75**	**65**	**75**	—	—	—	—	25
China	—	65	50	—	—	—	—	—
Hungary	20	—	—	—	—	—	—	—
*Other****	55	—	25	—	—	—	—	25
International organizations****	**7 163**	**9 912**	**13 410**	**1 426**	**623**	**1 107**	**4 074**	**4 173**
Total	**52 985**	**78 042**	**76 156**	**11 246**	**8 810**	**10 198**	**38 975**	**28 264**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

International bond yields

average yield of several actively traded, high quality issues with a maturity of 7 to 12 years
at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States companies											
Eurodollar	n.a.	n.a.	11.16	11.13	11.29	11.41	11.59	11.43	11.77	12.28	12.53
Euro-German mark	n.a.	n.a.	7.24	7.35	7.23	7.23	7.34	7.34	7.26	7.24	7.29
Swiss franc	n.a.	n.a.	5.61	5.78	5.75	5.73	5.73	5.58	5.61	5.63	5.59
European governments											
Eurodollar	n.a.	n.a.	12.53	12.40	12.44	12.52	12.65	12.33	12.58	12.96	13.27
Euro-German mark	n.a.	n.a.	8.10	8.18	8.05	8.07	8.12	8.08	7.63	7.82	7.88
Swiss franc	n.a.	n.a.	5.36	5.61	5.52	5.52	5.59	5.43	5.33	5.34	5.35

Eurocurrency bank credits — by country of borrower

credits with a maturity of one year or more, publicly announced in period
millions of dollars

	1981	1982	1983	1984			Jan-Apr	
				Feb	Mar	Apr	1984	1983
Industrial countries	**86 022**	**42 571**	**38 729**	**2 715**	**32 792**	**2 929**	**48 124**	**12 834**
Australia	1 680	4 721	2 911	45	211	25	372	1 077
Belgium	360	1 172	883	—	—	—	—	50
Canada	4 112	3 838	967	—	—	137	772	—
Denmark	1 661	789	1 586	10	—	—	18	1 300
Finland	463	631	283	—	—	—	—	25
France	3 912	5 703	1 700	61	—	538	732	582
Greece	1 039	770	1 085	—	400	—	400	542
Ireland	1 361	401	764	—	—	—	—	541
Italy	6 030	3 757	2 980	257	283	19	924	992
Norway	713	1 769	1 236	—	24	—	24	286
Portugal	1 590	1 388	913	186	110	—	296	300
South Africa	287	1 479	752	100	—	50	150	575
Spain	3 242	1 849	3 041	249	235	144	782	1 003
Sweden	1 867	649	3 188	—	—	300	300	2 170
United Kingdom	747	1 635	1 328	750	107	250	1 117	310
United States	54 784	6 516	12 948	1 050	30 970	295	40 457	2 213
Yugoslavia	684	719	615	—	—	—	—	615
*Other**	1 490	4 785	1 549	7	452	1 171	1 780	253
Developing countries	**45 264**	**41 519**	**32 933**	**1 416**	**1 123**	**5 307**	**15 706**	**17 149**
Latin American countries	**30 152**	**26 719**	**15 406**	**170**	—	**3 845**	**10 545**	**9 961**
Argentina	2 534	1 565	1 750	—	—	—	—	—
Brazil	5 751	5 716	4 475	—	—	—	6 500	4 475
Chile	2 204	1 194	1 319	—	—	—	—	—
Colombia	1 030	741	549	170	—	—	170	100
Ecuador	934	815	431	—	—	—	—	—
Mexico	7 530	7 953	5 138	—	—	3 800	3 800	5 100
Peru	1 407	1 069	500	—	—	10	10	16
Venezuela	7 559	6 799	237	—	—	—	—	237
*Other***	1 203	867	1 007	—	—	35	65	33
Asian countries	**10 288**	**8 403**	**8 824**	**730**	**889**	**843**	**3 624**	**4 213**
India	377	284	809	—	55	20	125	477
Indonesia	725	1 250	1 467	15	17	—	782	1 146
Korea	2 824	2 923	3 250	298	717	328	1 443	870
Malaysia	1 725	1 909	950	150	—	500	650	610
Pakistan	350	455	365	—	—	—	—	115
Philippines	1 257	635	815	—	—	—	—	585
Thailand	692	268	349	247	—	—	247	18
Other	2 338	679	819	20	100	—	377	392
Middle Eastern and African countries	**4 824**	**6 397**	**8 703**	**516**	**234**	**619**	**1 537**	**2 975**
Algeria	—	26	1 934	—	—	—	—	700
Egypt	63	353	335	—	—	—	—	71
Morocco	774	326	226	75	—	20	115	25
Nigeria	1 802	2 042	1 775	—	—	—	—	33
Turkey	100	2 042	1 106	350	—	100	450	166
United Arab Emirates	363	93	876	—	—	39	39	690
Other	1 722	3 280	2 451	91	234	460	933	1 290
Centrally planned countries	**1 791**	**765**	**1 212**	**604**	**410**	**250**	**1 514**	**233**
East Germany	470	8	392	—	50	—	50	—
Hungary	550	340	683	412	—	250	662	233
Soviet Union	25	374	68	115	—	—	365	—
*Other****	746	43	69	77	360	—	437	—
International organizations***	**302**	**160**	**1 321**	—	—	—	—	**21**
Total	**133 379**	**85 015**	**74 195**	**4 735**	**34 325**	**8 486**	**65 344**	**30 237**

*Includes multinational organizations. **Includes unallocated. ***Includes COMECON institutions. ****Includes regional development organizations.

Eurocurrency market size

measured by foreign currency liabilities
at end of period, billions of dollars

	1977	1978	1979	1980	1981	1982	1983			
						Dec	Mar	Jun	Sep	Dec
Gross market size	740	949	1 233	1 524	1 861	2 057	2 074	2 045	2 115	2 153
Nonbanks	135	174	245	327	428	474	472	489	515	527
Official monetary institutions	100	115	145	150	132	90	90	84	90	89
Other banks	505	660	843	1 047	1 301	1 493	1 512	1 472	1 510	1 537
Eurodollars as % of gross	76	74	72	75	78	79	80	80	80	80

Central bank discount rates

at or near end of month

	1980	1981	1982	1983			1984	Current	
	Dec	Dec	Dec	Jun	Sep	Dec	Mar	May 11 1984	effective since
United States	13.00	12.00	8.50	8.50	8.50	8.50	8.50	9.00	Apr 9, 84
Canada	17.36	14.66	10.05	9.42	9.49	9.96	10.78	10.82	Apr 19, 84
Austria	6.75	6.75	4.75	3.75	3.75	3.75	4.25	4.25	Mar 14, 84
Belgium	12.00	15.00	11.50	9.00	9.00	10.00	11.00	11.00	Feb 16, 84
Denmark	11.00	11.00	10.00	7.50	7.50	7.00	7.00	7.00	Oct 27, 83
Finland	9.25	9.25	8.50	8.50	9.50	9.50	9.50	9.50	Jul 1, 83
France	9.50	9.50	9.50	9.50	9.50	9.50	9.50	9.50	Aug 31, 77
Germany	7.50	7.50	5.00	4.00	4.00	4.00	4.00	4.00	Mar 18, 73
Ireland	12.75	17.15	14.35	13.80	12.20	11.50	11.50	11.50	Nov 11, 83
Italy	16.50	19.00	18.00	17.00	17.00	17.00	16.00	16.00	Feb 15, 84
Netherlands	8.00	9.00	5.00	4.50	5.00	5.00	5.00	5.00	Sep 9, 83
Norway	9.00	9.00	9.00	8.00	8.00	8.00	8.00	8.00	Jun 6, 83
Portugal	18.00	18.00	19.00	23.00	25.00	25.00	25.00	25.00	Aug 10, 83
Spain	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	Jul 26, 77
Sweden	12.00	11.00	10.00	8.50	8.50	8.50	8.50	8.50	Apr 8, 83
Switzerland	3.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00	Mar 18, 83
United Kingdom	14.00	14.37	10.00	9.56	9.50	9.00	8.50	8.50	Mar 15, 84
Japan	7.25	5.50	5.50	5.50	5.50	5.00	5.00	5.00	Oct 22, 83
New Zealand	14.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	Jul, 81
South Africa	7.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	Dec 12, 81
Argentina	87.01	98.50	128.54	161.87	183.75	183.75	134.13	167.37	Apr 1, 84
Korea	15.50	10.50	5.00	5.00	5.00	5.00	5.00	5.00	Mar 29, 82
Philippines	6.50	6.69	6.30	6.51	6.91	8.05	n.a.	8.33	Feb, 84
Singapore	10.50	9.50	7.00	7.00	7.00	7.00	7.00	7.00	Feb 19, 82
Thailand	13.50	14.50	12.50	11.50	11.50	13.00	13.00	13.00	Dec 9, 83
Venezuela	13.00	14.00	13.00	11.00	11.00	11.00	11.00	11.00	May 18, 83

Day-to-day money rates

monthly averages

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	18.90	12.37	8.95	9.45	9.48	9.34	9.47	9.56	9.59	9.90	10.29
Canada	15.61	14.53	10.63	9.25	9.35	9.43	8.78	9.60	9.63	9.50	9.72
Austria	11.50	7.50	6.00	5.00	5.62	5.62	5.75	5.87	5.87	6.00	6.38
Belgium	9.68	12.78	9.43	6.38	6.89	8.58	8.65	8.03	7.57	11.20	11.37
Finland	12.50	11.30	11.50	16.67	16.95	16.70	16.70	17.50	17.50	17.50	16.77
France	10.87	15.46	12.88	12.56	12.35	12.37	12.27	12.39	12.30	12.48	n.a.
Germany	9.13	10.65	6.07	5.43	5.53	5.59	5.60	5.61	5.55	5.52	5.53
Ireland	13.31	16.88	14.54	12.62	11.00	12.25	12.19	12.12	11.25	10.75	n.a.
Italy	17.50	20.63	19.00	17.69	17.75	17.79	17.88	17.91	17.67	17.25	17.25
Netherlands	8.37	10.67	5.31	5.68	5.82	5.70	5.84	5.77	6.12	6.13	n.a.
Norway	11.00	18.60	11.00	12.30	13.50	13.00	13.00	12.80	11.45	13.00	13.00
Spain	16.74	18.73	20.30	19.85	20.27	18.56	16.41	10.16	18.14	14.75	n.a.
Sweden	11.41	13.82	8.63	11.30	12.00	11.97	11.48	11.36	10.90	10.15	n.a.
Switzerland	5.75	3.38	1.25	2.00	1.75	1.62	1.88	1.00	1.62	2.25	n.a.
United Kingdom	13.00	9.13	6.70	7.30	7.81	7.06	7.77	7.31	7.12	7.08	6.25
Australia	9.51	12.84	11.04	9.80	9.03	9.31	4.56	7.09	9.05	11.21	n.a.
Japan	9.49	6.70	6.92	6.53	6.43	5.99	6.47	6.05	6.04	6.46	n.a.
South Africa	6.03	12.75	14.15	14.94	14.75	15.05	16.06	17.13	17.25	17.25	17.25
Argentina	70.84	84.93	155.32	175.30	178.30	178.30	178.30	138.61	128.53	128.52	161.88
Brazil	62.71	103.74	150.42	193.91	192.62	193.91	184.69	224.27	295.48	268.44	n.a.
Hong Kong	14.05	10.75	9.13	13.25	18.00	10.00	13.90	7.25	3.31	7.32	n.a.
Korea	14.82	14.40	13.84	12.80	12.80	12.90	11.40	11.30	10.50	10.00	n.a.
Philippines	15.70	14.70	16.12	16.54	24.23	18.96	31.18	25.52	21.76	n.a.	n.a.
Singapore	10.23	3.96	11.45	6.51	7.02	7.23	7.05	6.92	6.83	7.64	8.13

Treasury bill rates

bond equivalent yields, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	14 87	11.90	8.15	9.05	8.92	9.05	9.28	9.20	9.48	10.09	10.02
Canada	17.01	14.41	9.80	9.24	9.24	9.38	9.71	9.73	9.79	10.53	10.59
Belgium	12.75	16.00	12.25	9.25	9.50	10.85	10.85	10.85	12.25	12.25	11.75
Ireland	12.84	17 35	14.70	12.12	11.96	11.66	11.63	11.80	12.16	12.59	n.a.
Italy	16 87	21 36	19.11	17.18	17.08	17.05	16.95	15.74	15.89	n.a.	n.a.
Netherlands	8.00	9.75	5.62	5.87	5.62	5.62	5.63	5.75	6.12	5.88	n.a.
Spain	n.a.	n.a.	15.28	14.60	14.52	14.53	14.46	13.61	13.66	13.20	n.a.
Sweden	n.a.	n.a.	12.90	12.20	12.10	12.10	11.75	11.10	11.15	10.80	n.a.
United Kingdom	13.45	15.31	9.90	9.21	8.89	9.08	9.08	9.08	9.08	8.59	8.59
Australia	12.17	13.27	9.39	10.34	9.38	9.32	8.54	9.43	10.35	13.11	n.a.
Japan	5.93	5.42	5.42	5.42	4.91	4.91	4.91	4.91	4.91	4.91	n.a.
New Zealand	11.25	11 25	11 25	7.80	7.80	7.80	7.80	7.80	7.80	7.80	n.a.
South Africa	6.31	14.55	14 62	14.91	15.66	17.47	18.43	18.55	18.57	18.57	18.64
Brazil	65.87	92.62	115.40	163.92	179.15	179.15	179.15	179.15	179.15	179.15	n.a.
Mexico	27.73	33.33	57.44	56.17	54.50	53.85	53.78	53.02	n.a.	n.a.	n.a.
Philippines	12.74	13.40	14.53	14.71	15.04	15.56	15 98	16.27	17.01	n.a.	n.a.
Singapore	6.77	3.03	2.74	2.65	2.63	2.62	2.59	2.67	2.65	2.66	2.87

Representative money market rates

bond-equivalent yields on major short-term (mostly 3-4 month) money market instruments other than Treasury bills, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	17.62	12.78	8.81	9.36	9.26	9.31	9.75	9.36	9.68	10.30	10.50
Canada	17.50	15.25	9.95	9.40	9.40	9.60	9.87	9.85	9.95	10.70	10.75
Belgium	13.10	16.00	12.35	9.25	9.50	10.75	11.00	11.00	12.50	12.35	11.90
France	11.56	15.25	12.75	12.50	12.19	12.31	12.19	12.25	12.54	12.56	12.31
Germany	10.20	10 50	6.20	5.80	6.15	6.25	6.30	6.10	5.85	5.80	5.70
Ireland	13.62	18.50	15.75	12.69	12.53	12.37	12.19	12.25	12.56	13.00	n.a.
Italy	17.37	21.00	19.00	17.50	17.63	17.88	17.88	17.88	17.00	17.25	17.25
Netherlands	9.37	11.00	5.25	6.25	6.12	6.31	6.00	5.94	6.00	6.06	5.88
Portugal	11.00	13.80	15.04	22.30	23.00	24.17	24.11	24.06	23.79	23.99	n.a.
Spain	17.40	15.52	16.55	22.06	22 19	20.29	18.48	17 30	18.30	16.42	n.a.
Switzerland	7.50	10.12	3.87	4.25	4.25	4.25	3.87	3.62	3.75	3.94	3.63
United Kingdom	14.75	15.69	10.50	9.56	9.31	9.25	9.31	9.37	9.21	8.88	8.81
Australia	13.00	16 00	10.65	11.15	11.00	10.60	9.50	11.00	13.00	13.55	n.a.
Japan	9 80	6 30	6.80	6.62	6.30	6.42	6.42	6.30	6 40	6.40	6.20
New Zealand	14 25	16 05	16.75	10.00	10.75	12.00	12.10	13.85	15.00	14.75	n.a.
South Africa	7.12	15.47	15.26	16.45	16.94	18.19	19.12	19.07	19.01	18.30	19.07
Chile	26.79	34.54	71.44	25.34	25.34	25.34	22.42	19.56	14.03	11.35	18.16
Hong Kong	17.69	14.18	10.13	12.75	16.88	11.50	12.84	11.37	7.87	7.90	n.a.
Indonesia	12 54	14.48	18.50	16.50	15.00	15.00	19.50	19.00	20.50	19.50	n.a.
Korea	16.35	15 69	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	n.a.
Malaysia	9.41	9 50	8.50	8.10	8.20	8.65	9.80	9.47	8.51	8.95	9.10
Philippines	15.01	17.6	15.89	16.49	18.26	17.34	15.60	16.08	17.40	n.a.	n.a.
Singapore	14.12	7.81	8.69	7.37	7.50	7.62	8.44	7.75	7.75	8.50	8.63
Taiwan	14.49	10.94	9.94	8.37	7.82	7.26	7.65	9.22	9.42	7.81	7.31
Thailand	16.55	14.29	12.25	14.00	14.25	14.50	16.00	16.50	17.00	15.50	n.a.

Commercial bank deposit rates

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	16.25	12.62	8.25	9.20	9.30	9.30	9.70	9.40	9.77	10.35	10.50
Canada	17.00	15.20	9.85	9.35	9.35	9.50	9.82	9.80	9.90	10.65	10.70
Austria	11.25	9.63	6.25	6.06	6.31	6.37	6.50	6.50	6.25	6.44	6.56
Belgium	12.63	15.50	12.25	9.50	9.38	11.25	11.25	10.87	12.37	11.75	11.50
Denmark	10.00	10.00	9.00	6.50	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Finland	5.00	5.00	4.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
France	11.25	9.16	8.24	7.80	7.70	7.70	7.66	7.72	7.76	7.76	7.76
Germany	8.00	9.50	6.00	5.63	5.60	5.80	5.90	5.65	5.40	5.35	5.35
Ireland	13.62	18.38	15.25	12.25	12.50	12.25	11.75	11.87	12.37	12.63	n.a.
Italy	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25	13.25
Netherlands	9.50	11.00	5.37	6.12	6.06	6.19	6.13	5.94	6.00	6.06	n.a.
Norway	11.00	12.75	13.50	12.50	12.50	12.50	12.75	13.00	12.50	12.75	12.75
Portugal	12.00	14.00	15.00	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Spain	4.50	11.78	12.53	12.24	12.08	12.50	12.62	12.49	12.52	n.a.	n.a.
Sweden	13.20	12.65	12.15	12.05	12.20	12.30	11.70	11.00	11.10	10.65	n.a.
Switzerland	7.50	8.75	3.00	3.75	3.50	3.50	3.50	3.25	3.25	3.00	n.a.
United Kingdom	14.87	15.69	10.31	9.50	9.25	9.22	9.31	9.37	9.25	8.88	8.91
Australia	12.71	15.65	10.20	10.56	10.96	10.35	10.40	11.25	12.20	13.13	n.a.
Japan	9.00	6.50	7.00	6.88	6.45	6.60	6.50	6.52	6.63	6.50	n.a.
New Zealand	13.50	15.50	16.50	9.00	9.50	10.75	11.50	13.75	10.00	10.00	n.a.
South Africa	7.87	14.75	15.25	17.00	17.00	18.43	20.13	19.45	18.88	19.38	18.88
Argentina	72.00	86.76	103.42	176.41	176.41	176.41	176.41	139.91	121.66	121.66	158.17
Brazil	54.00	110.05	21.00	25.00	26.00	24.00	23.00	26.00	25.00	23.00	n.a.
Chile	39.45	36.87	57.72	25.19	25.19	25.19	22.28	19.74	12.95	11.09	18.16
Hong Kong	13.00	12.50	7.50	12.00	10.00	9.00	9.00	7.00	5.50	5.50	n.a.
Korea	14.82	14.40	7.60	7.60	7.60	7.60	7.60	6.00	6.00	6.00	n.a.
Malaysia	8.60	10.00	8.40	7.15	7.15	7.60	7.75	7.75	7.75	7.83	7.83
Mexico	26.15	31.82	52.54	56.38	55.20	54.84	54.70	53.86	n.a.	n.a.	n.a.
Philippines	14.00	13.35	14.10	13.47	13.62	14.93	14.96	14.33	15.57	n.a.	n.a.
Singapore	13.19	7.50	8.25	6.81	7.07	7.19	7.44	7.13	7.19	7.69	8.01
Taiwan	10.25	10.75	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Thailand	9.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Venezuela	16.00	14.75	15.50	12.50	12.00	12.00	12.00	11.50	11.50	11.00	11.50

Domestic government bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	11.46	14.33	10.61	11.65	11.85	11.89	12.00	11.72	12.13	12.49	12.79
Canada	12.69	15.27	11.69	11.76	11.73	11.80	12.02	11.92	12.40	13.06	13.31
Austria	9.62	10.37	8.81	8.32	8.16	8.06	8.02	7.96	7.88	7.88	7.94
Belgium	13.04	13.99	12.66	11.39	11.32	11.75	11.89	11.97	12.35	12.20	12.08
Denmark	19.98	20.91	20.14	14.19	13.95	14.22	12.96	13.39	14.02	14.78	n.a.
Finland	10.42	10.98	10.64	10.97	11.19	11.16	11.16	11.17	10.62	11.19	10.80
France	14.31	16.44	15.40	14.03	14.15	14.12	13.96	13.76	13.78	14.05	n.a.
Germany	9.19	9.71	7.90	8.43	8.30	8.34	8.38	8.33	8.13	8.18	8.18
Ireland	15.63	18.28	14.54	13.72	13.82	13.72	14.25	13.94	14.16	14.08	n.a.
Italy	16.23	21.39	19.70	17.82	17.65	17.78	17.69	17.09	16.33	n.a.	n.a.
Netherlands	10.48	11.28	8.16	8.80	8.53	8.57	8.58	8.57	8.56	8.40	n.a.
Norway	10.44	12.37	13.32	12.50	12.50	12.50	12.50	12.50	12.25	12.25	12.25
Portugal	17.19	17.39	16.63	21.97	22.05	22.80	22.11	21.19	21.57	n.a.	n.a.
Spain	16.15	16.20	15.92	18.76	19.47	19.50	18.71	18.33	n.a.	n.a.	n.a.
Sweden	12.61	12.80	13.01	12.20	12.24	13.05	12.30	11.70	11.50	11.50	n.a.
Switzerland	4.63	5.40	4.22	4.71	4.61	4.62	4.52	4.31	4.38	4.55	n.a.
United Kingdom	13.05	15.02	10.62	10.15	10.13	9.93	9.94	9.97	10.04	9.89	10.16
Australia	13.00	15.00	13.00	14.40	13.70	13.40	13.65	13.70	14.05	14.00	n.a.
Japan	9.04	8.32	7.76	7.58	7.51	7.39	7.19	7.20	7.06	6.74	6.68
New Zealand	12.99	12.55	12.84	10.13	10.58	10.61	10.50	10.84	11.33	n.a.	n.a.
South Africa	11.81	13.33	11.31	13.14	13.29	13.60	13.70	14.18	13.52	14.20	14.63
Philippines	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41	13.41
Venezuela	7.39	12.50	15.00	14.00	14.00	14.00	13.50	13.00	13.00	13.00	13.50

Commercial bank lending rates to prime borrowers

at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	21.50	15 75	11 50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	12.00
Canada	18.25	16.50	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.50	11.50
Austria	12.50	13.50	11.75	9.25	9.25	9.25	9.25	9.25	9.25	9.25	9.25
Belgium	15.75	18.00	15.50	12.50	12.50	13.25	13.75	13 75	14.75	14.75	14.75
Denmark	13.75	15.00	14.00	10.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00
Finland	9.83	9.84	8.95	10.16	10.14	10.15	10.18	10.30	10.36	10.38	n.a.
France	12 25	14.00	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25	12.25
Germany	11.50	13.00	8.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Ireland	14 50	17.25	16.50	13.75	13.75	13.75	13.75	13.75	13.75	13.75	13.75
Italy	20 50	22.50	20.75	18.75	18.75	18.75	18.75	18.50	18.50	17.50	17.50
Netherlands	10.75	12.00	6.25	7.00	6.75	6.50	7.00	6.75	6.75	6.75	n.a.
Norway	12.50	13.75	14.50	13.50	13.25	13.75	13.50	13.63	13.75	13.30	13.30
Portugal	18.75	20.50	23.50	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Spain	18.50	17.04	19.00	24.09	23.70	22.87	20.85	20.01	20.55	19.44	n.a.
Sweden	14.00	15.00	15.00	13.50	13.50	13.50	13.50	13.50	13.50	13.50	13.50
Switzerland	5.75	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
United Kingdom	14.00	14.50	10.00	9.50	9.00	9.00	9.00	9.00	9.00	8.50	8.50
Australia	13.50	15.75	15.00	14.00	13.25	13.25	12.75	11.50	13.00	14.00	n.a.
Japan	8.16	6.95	6.28	6.23	6.23	6.08	5.89	5.81	5.70	5.70	5.70
New Zealand	13 00	13.00	13.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
South Africa	9.50	17.00	18.00	18.00	18.00	19.00	20.00	20.00	20.00	20.75	20.75
Argentina	77.00	92.60	109.50	188.58	188.58	188.58	188.58	152.08	133.83	133.83	170.33
Brazil	120.10	152.40	23.81	24.00	24.00	24.00	24.00	24.00	24.00	24.00	n.a.
Chile	49.55	61.43	85.19	39.83	40.60	40.40	35.11	31.43	22.75	21.26	34.35
Hong Kong	17.00	16.00	10.50	16.00	15.00	13.50	13.50	11.50	10.00	10.00	n.a.
Indonesia	21.00	19.25	22.00	19.50	19.50	19.50	19.75	20.00	21.25	21.50	21.50
Korea	19.50	16.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Malaysia	8.50	12.00	12.50	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00
Mexico	24.25	31.81	46.12	57.78	57.14	56.82	56.44	55.95	55.16	53.11	51.10
Philippines	16.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
Singapore	13.60	11.83	9.33	8.95	8.93	8.93	8.98	9.05	9.03	9.20	9.63
Taiwan	16.20	15.25	10.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25	10.25
Thailand	16.50	17.00	16.00	15.50	15.50	15.50	16.00	16.00	16.50	17.00	n.a.
Venezuela	15.00	15.50	17.00	16.00	16.00	16.00	16.00	16.00	14.50	14.50	15.00

Domestic corporate bond yields

long-term issues, at or near end of month

	1980	1981	1982	1983				1984			
	Dec	Dec	Dec	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
United States	13 00	15.50	11.75	12.25	12.63	12.38	12.63	12.38	12.88	13.25	13.88
Canada	13.53	16.18	12.74	12.54	12.57	12.58	12.89	12.78	13.27	13.84	14.13
France	15.23	17.33	15.91	14.36	14.62	14.30	14.06	13.96	14.28	14.37	n.a.
Germany	9.50	10.50	8.20	8.30	8.30	8.30	8.30	8.30	8.00	8.00	n.a.
Netherlands	10.71	11.03	7.80	8.68	8.39	8.53	8.51	8.44	8.39	8.26	n.a.
Norway	11.24	13.36	14.13	13.25	13.25	13.25	13.25	13.25	13.00	13.00	13.00
Spain	14.82	14.76	17.10	20.05	20.37	20.03	19 84	20.19	20.69	n.a.	n.a.
Sweden	11.95	12.94	13.37	12.99	12.40	12.51	12 21	12.15	11.96	11.84	n.a.
Switzerland	n.a.	n.a.	4.87	5.07	4.94	4.94	4.94	4.93	4.91	4.85	4.91
United Kingdom	14.21	16.65	12.34	11.89	11.84	11.51	11.57	11.52	11.61	11.29	11.48
Australia	14 25	16 50	15.00	15.00	15.00	15.00	13.50	14.00	14.50	14.50	n.a.
Japan	8.60	7.70	7.55	7.30	7.29	7.27	7.09	7.05	7.04	6.92	n.a.
Korea	28.20	26.90	15.90	14.20	14.10	14.20	14.20	14.30	14 00	13.60	n.a.
Venezuela	16.15	17.00	18.00	18.00	18.00	18.00	18.00	18.00	17.50	17.50	17.50

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World Financial Markets

Morgan Guaranty Trust Company of New York

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Japan's financial liberalization and yen internationalization, 1

Japan's postwar financial system, 2

Domestic liberalization, 4

The struggle for turf and pressures for further change, 5

Internationalization of the yen and Japan's global integration, 7

U.S.-Japan joint initiatives, 9

Assessment, 10

Statistical appendix, 11

Chart 1

Japan: price competitiveness and current account balance

Japan's financial liberalization and yen internationalization

In late May, in time for the London economic summit, the U.S. Treasury and Japan's Ministry of Finance concluded negotiations to accelerate liberalization of Japan's financial system and to widen the international use of the yen. U.S. officials believe both are necessary if Japan, as a major economic power, is to meet its responsibility to encourage the free flow of goods and capital. In that way, one source of what others see as yen undervaluation could be corrected.

The urgency of the bilateral discussion was heightened by the prospect that Japan this year will roll up a surplus on current account approaching $30 billion — in vivid contrast not only to the deficit of $85 billion or more in store for the United States, but also to the $11 billion deficit Japan itself sustained as recently as 1980 (see Chart 1). Disequilibrium is most keenly felt on merchandise trade account, where Japan's surplus could hit $40 billion this year, of which its bilateral surplus with the United States will represent more than half (see Table 1). At the same time, the U.S. trade deficit overall could run close to $120 billion. These imbalances pose a critical challenge to the continued political viability of a liberal international trade and payments system. Particularly sensitive to foreign partners is the fact that although Japan has grown to be the free world's second-ranking industrial power, producing over 20% of total manufacturing output of the major seven countries, its manufactures imports are a mere 7% of the total.

Japan's external surplus has multiple sources, including its economic policy, nontariff barriers, cultural attitudes, and yen weakness. Over the past three years, restrained fiscal and monetary policies have contained growth in *domestic* demand to a modest 2.2% per annum and in imports to 1%. Japan's overall 3.4% real GNP growth has thus been largely export-led. Whatever may once have been the case, Japan's feeble appetite for imports no longer owes much to tariffs and quotas. Since the late 1960s, Japan has lifted quotas on most goods and has lowered tariffs, in contrast to retrogression in the United States and Europe. Only 27 commodities remain under quota, 22 of them agricultural, including beef and citrus fruit. Still, the paucity of manufactures imports contributes to lingering perceptions that Japanese markets

Table 1

Bilateral trade balances of Japan and the United States

in billions of dollars at seasonally adjusted annual rates, customs-CIF valuation, except as noted

	1980	1983	1984 Jan-Apr
Japan vis-à-vis			
United States	7.0	18.2	—
European Community	8.8	10.4	—
Germany	3.3	3.5	—
United Kingdom	1.8	3.1	—
*East Asian NICs**	10.8	12.7	—
All countries	—10.7	20.4	27.9
FOB balance of payments basis	2.1	31.6	41.9
Current account	—10.8	21.0	33.8
United States vis-à-vis			
Japan	—12.2	—21.9	—31.3
European Community	15.7	—1.6	—15.0
Germany	—1.3	—4.5	—9.1
United Kingdom	2.4	—2.3	—3.2
*East Asian NICs**	—4.1	—14.7	—10.4
All countries	—36.2	—69.3	—126.0
FOB balance of payments basis	—25.5	—60.5	—110.0e
Current account	0.5	—40.8	—90.0e

*Hong Kong, Korea, Singapore, and Taiwan.
e Estimated.

remain effectively closed.

Japan's major partners doubt that further goods-market liberalization in Japan, at least in a formal, negotiable sense, promises major or speedy remedies for trade imbalances. It is widely believed that removal of all remaining quotas would reduce Japanese trade surpluses at most by $5 billion. Although freer access to Japan's goods markets must still be pursued, the partners now believe the basic issue is a Japanese competitive advantage buttressed by yen undervaluation.

Many reasons are cited for yen undervaluation. However, the new thrust to remedy yen/dollar misalignment stresses the opening of Japan's historically regulated and closed financial system. The United States contends that liberalization will produce a more attractive array of yen assets. Together with reforms to discourage excessive domestic saving, liberalization could strengthen the yen by curbing capital outflows from Japan and encouraging inflows.

For perspective on the U.S.-Japan joint initiative, this article surveys Japan's transition from the financial rigidity that prevailed for thirty years after World War II. It assesses Japan's progress in domestic and external liberalization, its reluctant acquiescence in internationalization of the yen, and the potential of these moves to resolve tensions between Japan and its partners.

Liberalization and internationalization promise important benefits for both Japan and the world at large. Japan's own savers and users of financial services will gain from reduced costs of financial intermediation. And the world at large will benefit from more efficient allocation of scarce capital as well as lessened trade tensions among leading countries. But although liberalization and internationalization will undoubtedly continue, the substance of change and its future pace are by no means assured, since those who stand to lose are mobilized to defend the status quo. Accordingly, the new and potentially significant U.S.-Japanese agreement, reached at U.S. Treasury initiative, will need active follow-up.

Whether financial liberalization alone will achieve a major correction of yen misalignment is open to question. The yen could initially weaken. Both Japan and its partners must face the possibility that more fundamental reforms, such as policies that lessen structural disparities in national savings behavior, may prove necessary to correct currency misalignments. Unless all the major countries are seen to be committed to constructive trade and financial practices, it will be impossible to salvage the present remnants of a liberal trade order that was founded on the presumption of two-way trade, let alone to launch a rollback of protectionism.

Japan's postwar financial system

Until the mid-1970s Japan's financial system was rigidly compartmentalized and was centrally controlled through regulated interest rates and "administrative guidance." It was designed to maximize personal savings so that the investment needs of private industry and the rebuilding of public-sector infrastructure could be financed at low interest rates. High savings by households were fostered by minimal social security provision, tax-exempt savings, limited availability of mortgages and other consumer credit, and by the sheer depletion of financial assets in the aftermath of war. For the population at large, the fruits of savings were to be enjoyed mainly through fast growth in real wages rather than from interest or dividend earnings.

Postwar regulatory restrictions on

financial institutions, imposed by U.S. occupation forces, were designed to segment the system and thus prevent reemergence of the enormous financial-industrial conglomerates that previously had wielded excessive power. The postal savings system offered low-interest, substantially tax-exempt deposit instruments, with maturities generally longer than those of private depository institutions. The proceeds financed the investment requirements of the public sector, as well as such capital-intensive industries as steel and shipbuilding. The 63 private, regional banks offered similar but less tax-advantaged deposit instruments. A portion of those deposits financed local needs, but the greater part was on-lent to the city banks and the long-term credit banks. The latter were allowed to issue three- and five-year debentures to fund the bulk of long-term industrial credit. The 13 city banks, restricted to offering deposits with maturities of two years or less, provided working capital and medium-term loans to industry.

Initially concentrated in households, the major portion of equity holdings shifted in the late 1950s to businesses with close ties to one another and to the banks. The latter underpinned a "main bank" system that provided both ordinary company funding and emergency support. Equity issuance was not a significant source of finance for industry. Although securities companies engaged in equity trading, their underwriting and distribution activities were modest. The scale of operations of trust banks and insurance companies similarly was small during reconstruction. Besides, secondary trading of debt instruments was severely restricted both in scale and in terms of institutional eligibility to participate.

Japan's financial system was substantially insulated from developments abroad. The guiding principle was to forbid virtually all capital transactions, except by prior approval. The authorities followed the prevailing postwar philosophy of minimizing international capital flows, other than for financing trade and specific projects. Ensuring protection of the internal division of financial functions, Japan instituted elaborate exchange controls that remained little changed until the mid-1970s.

Japan's fears of potential foreign dominance motivated the limitation of capital inflows through restriction of foreign ownership of Japanese real estate and foreign direct or portfolio investment in Japan. With approval, however, Japanese firms could issue bonds abroad and contract "impact" (untied foreign currency) loans through foreign banks for domestic use. Conversion of the proceeds into yen met business financing needs and provided balance of payments support. But foreign participation in Japan's domestic financial markets was hardly more than token. While foreign banks could make impact loans, their ability to fund local currency business by currency swaps or through the domestic money markets was contained within limits set by the authorities. Foreign insurance and securities companies were effectively excluded, so as to protect fledgling domestic companies. Foreigners could not by the rules of the exchange, and still cannot in practice, acquire regular memberships in the Tokyo Stock Exchange.

As to capital outflows, the balance of payments constraint necessitated stringent licensing requirements for many years, effectively precluding free access by Japanese residents to foreign assets. In addition, outflow controls supported low interest rates that held down capital expense to the public and private sectors.

Insulated from external competition, this highly segmented system

Chart 2

Social security payments
as percent of GNP

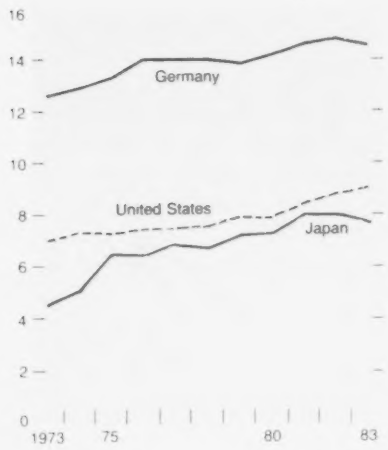


Chart 3

Japan: financial deficits and surpluses by sector
as percent of GNP

worked relatively smoothly from postwar reconstruction through the high-growth period of the 1960s. The excess demand for funds by the fast-expanding corporate sector guaranteed increasing markets for all financial institutions. The personal sector, as maior saver in the economy, displayed no significant sensitivity to interest rates. Interest rate differentials were kept down through regulation. Moreover, financial institutions were prohibited from freely advertising interest rates or their other inducements to depositors, ranging from portfolio management to marriage counseling. Thus, comparison shopping was difficult for consumers.

Domestic liberalization

During the 1970s the financial system came under increasing market pressures, principally as a result of a fundamental shift in sectoral flows of funds. Following the first oil shock Japan's trend economic growth roughly halved. Amid excess capacity, the previously strong demand for funds for business investment eased. This proved no mere cyclical phenomenon, but rather marked the effective completion of technology and capacity catch-up with the other industrial countries.

At the same time a large government budget deficit, aggravated by a commitment to step up growth, emerged as Japan instituted more generous social programs (see Chart 2). This was at the very time that the rate of growth in tax revenues was falling as economic expansion slowed. It therefore became necessary to divert still high (indeed rising) personal savings from industrial investment to financing of the budget deficit. In 1973 the surplus of the personal sector was 9% of GNP; by 1978 it was above 11%. Over the same period, the deficit of the corporate sector shrank from 8% to 1% of GNP, but the deficit of the government sector soared from less than 3% to over 9% (see Chart 3).

The shift in funds flows had several major consequences. First, under the syndicate system guided by the Ministry of Finance, government bonds took an ever-rising proportion of city bank portfolios. To contain the debt-servicing burden, interest rates on new issues were often below those in the secondary market. Understandably, the banks sought more dynamic business opportunities than mere acquisition of long-term official paper at a potential loss. In addition, banks lost market share because their regulated interest rates could not compete with rival offerings (see Chart 4). Banks therefore sought freedom both to offer new instruments, such as negotiable CDs, and to enter new business, such as the bond-repurchase (repo) market, and the trading of government bonds as principals.

Second, the structural shift of the government's financial balance into large deficit ballooned government debt outstanding from 6% of GNP in 1973 to over 35% today (see Chart 5). This would have had inevitable inflationary implications if the banks were still required to acquire the bulk of government debt issues. Consequently, a secondary market had to be developed in which government paper could be placed with nonbank investors and through which banks could shed unwanted holdings. This secondary-market development permitted the Bank of Japan to target broad money supply (M2 + CDs) to achieve price stability.

Third, with the cutback in their investment outlays, industrial corporations were now more liquid and eager for better returns on their surplus funds (see Table 2). Long-term credit banks, which specialized in mobilizing funds to finance double-

Chart 4

Sources of funds to final users

by percent shares

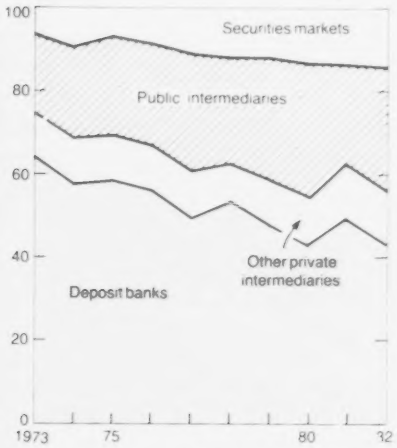
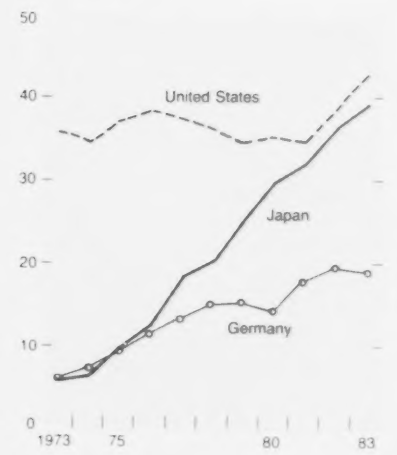


Chart 5

Central government debt

as percent of GNP



digit growth in private investment, searched for a new market niche as their original mission waned. Securities companies in Japan, as elsewhere in the West, became more innovative. In fact all sectors of the economy became increasingly conscious of Western financial innovations and, accordingly, grew more assertive in demanding and seeking out investment opportunities at market-related rates.

In 1977 restrictions were removed on the sale into secondary markets of government bonds held more than one year by financial institutions. The adoption in early 1978 of an open bidding system for Bank of Japan open-market operations paved the way later that year for a similar system for new issues of government bonds in the two-to-four-year maturity range. Deregulation of interest rates in the call-loan and bill-discount interbank markets, the lifting of restrictions on banks' participation in the repo market, and the establishment of a market for negotiable CDs without interest-rate ceilings all took place in 1979. The rapid expansion of new short-term market instruments and secondary markets in government bonds, together with interest arbitrage and liberalization of interbank markets, has compelled greater market orientation of administered rates and interest rates generally.

The struggle for turf and pressures for further change

Perhaps the most striking development on Japan's financial scene during the past decade has been the decline of the once-dominant role of the deposit banks (see Table 3). Not only have the borrowing needs of corporations declined, but also the preferences of a rapidly aging and prosperous population have shifted toward life insurance and other assets yielding more than regulated bank deposits. Historically high interest rates and a wider array of financial instruments have spurred the interest rate sensitivity of Japanese savers (see Chart 6).

The commercial banks' main problem has been the slow adjustment of regulatory constraints. Competition has come from both public and private financial institutions. By offering higher effective yields the postal savings system has increased its market share. With regulated deposit rates embodying the principle of "the longer the maturity, the higher the rate," restriction of the longest maturity of commercial bank time deposits until recently to only two years has been a distinct handicap. In contrast, postal savings can offer up to 10-year deposits with the added inducement of interest compounding. Moreover, the tax code, which exempts interest income from an individual's first Y3 million in savings deposits, is less stringently enforced on postal savings than on bank deposits. The securities companies have also gained ground on the commercial banks through the introduction of a medium-term government bond fund and by the vigorous expansion of the repo market, from which the banks initially were excluded. However, the introduction of negotiable CDs in May 1979 and the admission of commercial banks to the repo market have gone some way to restore bank competitiveness.

Agreement in principle has emerged that restraint on the asset and liability powers of financial institutions must be relaxed. However, the general principle guiding the various institutions is that those who are currently confined to relatively low-growth areas – for example, depository institutions specializing in industrial lending – want access to markets with higher growth potential; those who are already in such higher growth areas want to impede